



John Lewis Partnership: Britain's Grocer

EASTERN EDGE CONSULTING

MEMORIAL UNIVERSITY

Agenda

- ▶ Analysis Krista
- ▶ Alternatives Priyank
- ▶ Recommendation
- ▶ Implementation Jeff
- ▶ Financials Chris
- ▶ Risks & Mitigations Krista
- ▶ Conclusion

Problem Statement

How can the John Lewis Partnership adapt and thrive in a changing environment?

Key Issues

Brexit

- Labour supply
- Currency
- Export/ Import

Technology

Competition

Business Model

Key Objectives

- Navigate Brexit successfully
- Leverage technology
- Differentiate from competition
- Adapt business model for next 100 years

Recommendation

John Lewis Partnership can adapt and thrive to their changing environment through a **strategic realignment.**

Analysis

External Analysis - Brexit

Financial

- Pound – Euro exchange rate
- Depreciated Pound = higher cost of goods sold

Supply Chain

- Export and Import
 - Regulations?
 - Customs duties?
 - Tariffs?

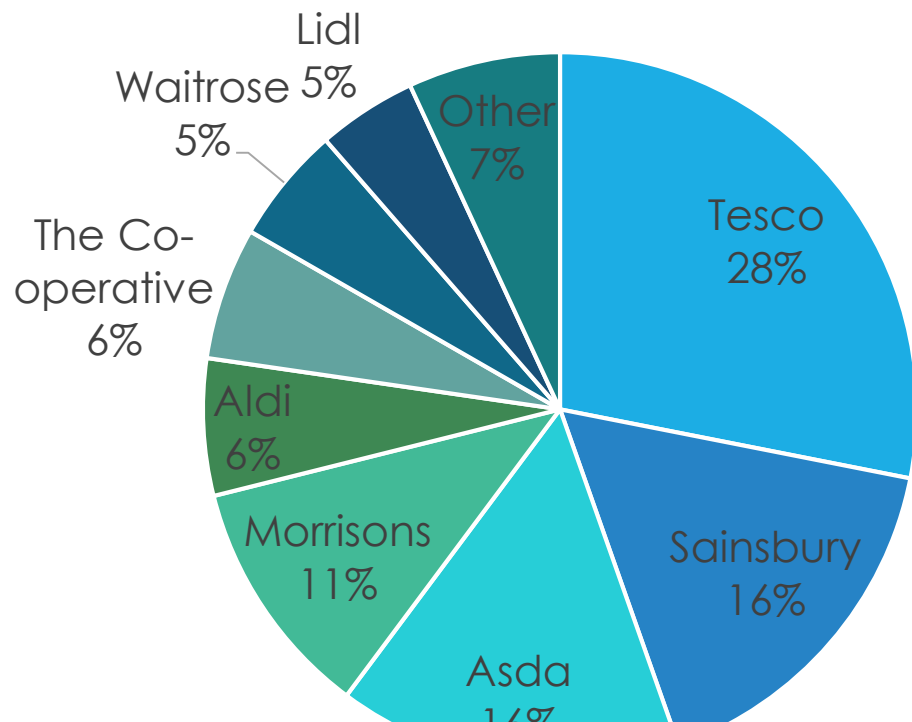
Labour

- Eastern EU workers as support staff
 - Will they still be able to work in UK?

Brexit has high potential for significant impact

External Analysis - Competition

Major UK Grocery Chains



Department Store Competition

Harrod's

Marks & Spencer

Specialty stores

- Dickson
- H&M
- Nike

Online shopping

Tough competition in both divisions

External Analysis

Industry trends

Retail

Grocery

Online shopping:
Amazon

Fast,
disposable
fashion

Disappearing
department
stores

Consumer
preferences for
organic, non-
GMO food

Online and
delivery

Industries are changing, must be able to adapt

Internal Analysis

John Lewis Partnership

Unique
business
model

Happiness
of members
is key
purpose

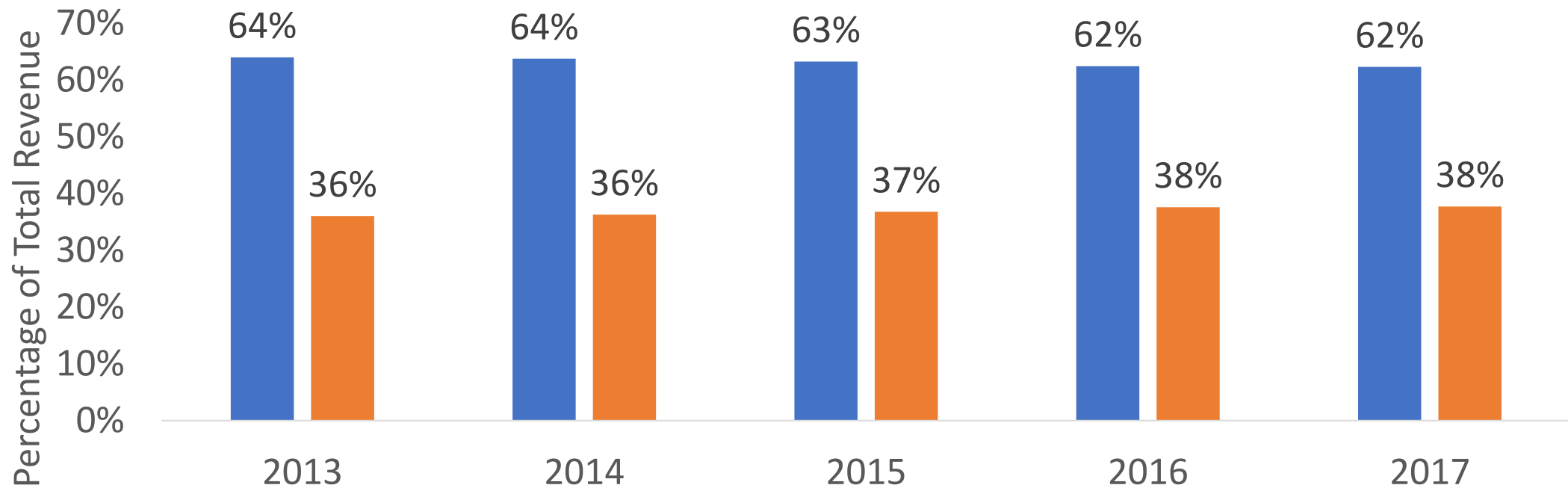
Employee
profit
sharing

Strong
governance

Successful business model, thriving for nearly a century

Internal Analysis

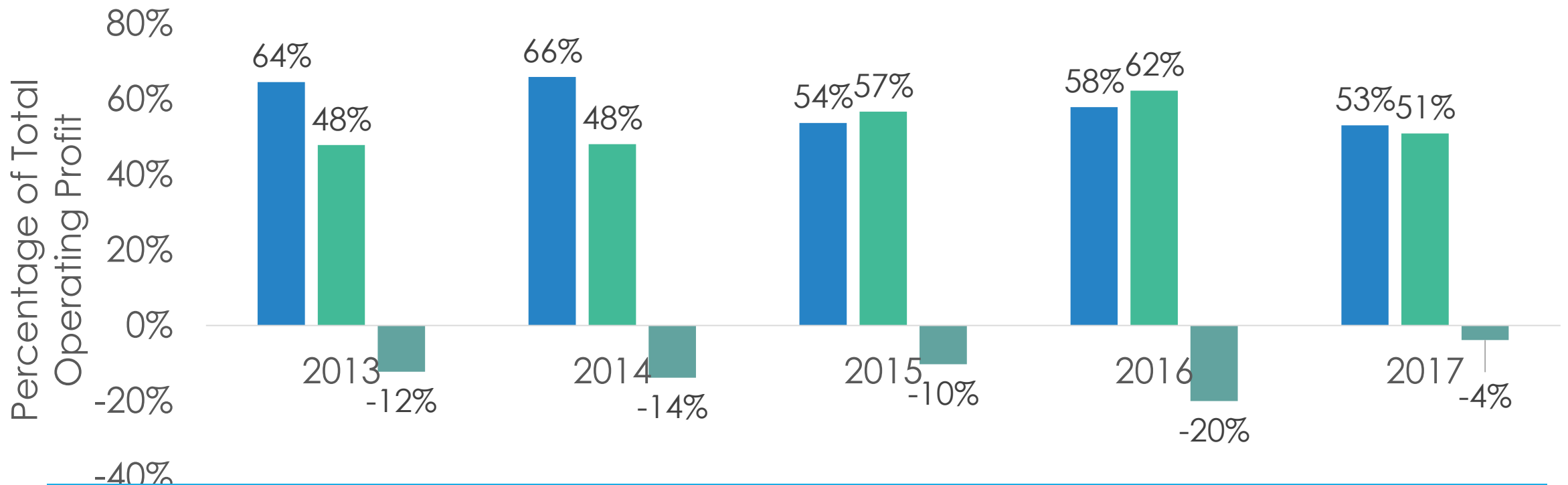
Revenue Trends



Grocery line is larger component of total revenue

Internal Analysis

Operating Profit Trends



Profit margins are declining – need to innovate

Internal Analysis

Department Store

- John Lewis & Peter Jones
- Hundreds of thousands of products
- Suppliers in 70 countries

Grocery Business

- Waitrose
- 25,000 products
- Network of small suppliers
- Mostly local UK suppliers
- Leckford Farm

Grocery business is most promising division

Assumptions


- ▶ Management will approve the plan
- ▶ Can successfully sell department store business
- ▶ Farms are available for purchase


Alternatives

Alternatives

- Vertically Integrate Department Stores
- Geographically Diversify
- Strategically Realign


Vertically Integrate Department Stores

- 
- Reduces cost of goods sold
 - Increases control
 - Improves quality, sourcing and supply chain

- 
- Workforce intensive
 - Expensive and requires investment
 - Limited expertise & experience
 - Increasing competition from online retailers
 - Increased costs for partner benefits

Geographically Diversify

- 
- Less dependence on single market
 - Additional diversified revenue

- 
- Limited experience
 - Workforce intensive
 - Expensive
 - Competition from online retailers
 - UK aspect of business is still vulnerable

Strategically Realign

- 
- 
- Minimizes impact from Brexit
 - Leverages technology
 - Improves grocery supply chain & quality
 - Reduces dependence on Eastern European workforce
 - Minimizes impact from euro/pound changes
- Lost revenue from department stores division
 - Impact on the workforce due to sale and Brexit

Decision Matrix

	Vertically Integrate Department Stores	Geographically Diversify	Strategically Realign
Adapts to Brexit	✓	✓	✓
Leverages technology	✗	✗	✓
Differentiates from competition	✓	✗	✓
Adapts business model for next 100 years	✗	✓	✓



Recommendation

Recommendation

John Lewis Partnership can adapt and thrive to their changing environment through a **strategic realignment.**

Implementation

Implementation - Summary

2018

- Invest in technology

2019

- Divest department store division

2021

- Focus on Waitrose

Brexit for JLP

Considerable uncertainty

Serious threats posed to:

- Labour supply
- Supply chain

Need to be nimble

Investment in Technology

Automated
warehouse
technology

Online sales

Automated
farming

Drone

Technology to adapt to disruption

Department Store Division

2 flagship stores

- John Lewis on Oxford Street
- Peter Jones in Chelsea

32 other stores following John Lewis formula

Exposed to uncertainty of Brexit

Divestment Overview

Approval of Partnership Board and Council

Target completion within next 18 months

Carefully manage impacted employees

- Transparency

• Respect

Stakeholder management crucial

Divestment Proceeds

Technology
Investment

Investment
in grocery
supply chain

Purchase of
other stores

Grocery Supply Chain

Farming Investment

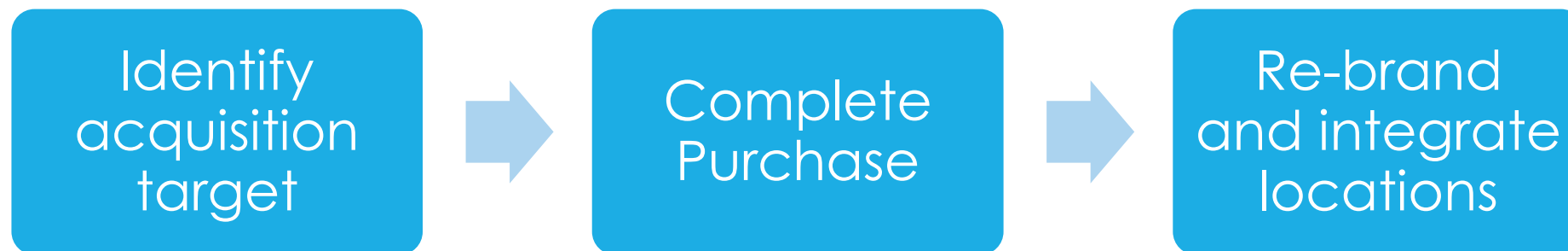
Greenhouses
for year-
round
produce

Automated
farming
techniques

High quality,
non-GMO
produce

Insulation from Brexit

Waitrose Expansion



Marketing Plan

The New Waitrose

Message

- Local
- Non-GMO
- Improved supply chain
 - Fresh, year round
 - 100% quality guaranteed
- “Your local grocer, now online”

Appeals to:

- British pride
- Consumer trends
 - Preference for local, organic, non-GMO
 - Farm to table
 - Online and delivery services

Financial Analysis

Valuation of Departmental Store Business

- ▶ The division contributes 41.7% of revenue
- ▶ Valuation is based on 41.7% of total assets
- ▶ Proceeds from sale: 3.3 billion pounds

Sensitivity Analysis	
Premium	Billion Pounds
20%	3.1
25%	3.3
30%	3.4

Management of Sale Proceeds

- ▶ Repayment of debt associated with the departmental store business
- ▶ Continued investment in technology
- ▶ Vertical integration
- ▶ Horizontal expansion

Financial Plan

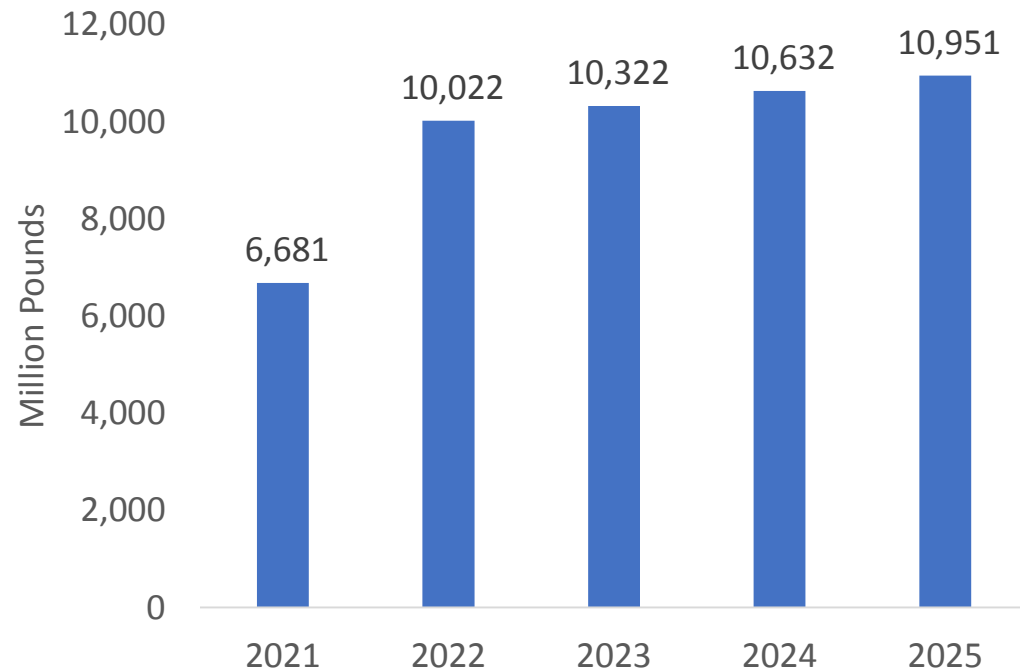
Million pounds	2018	2019	2020	2021
Initial investment in technology	(50)			
Proceeds from sale		3300		
Repayment of debt		(1700)		
Continued investment in technology		(200)		
Vertical Integration			(250)	
Horizontal expansion			(1000-1500)	

Source of funds:

Initial investment in technology - Debt

Investments post sale of the departmental stores division - Debt and cash proceeds

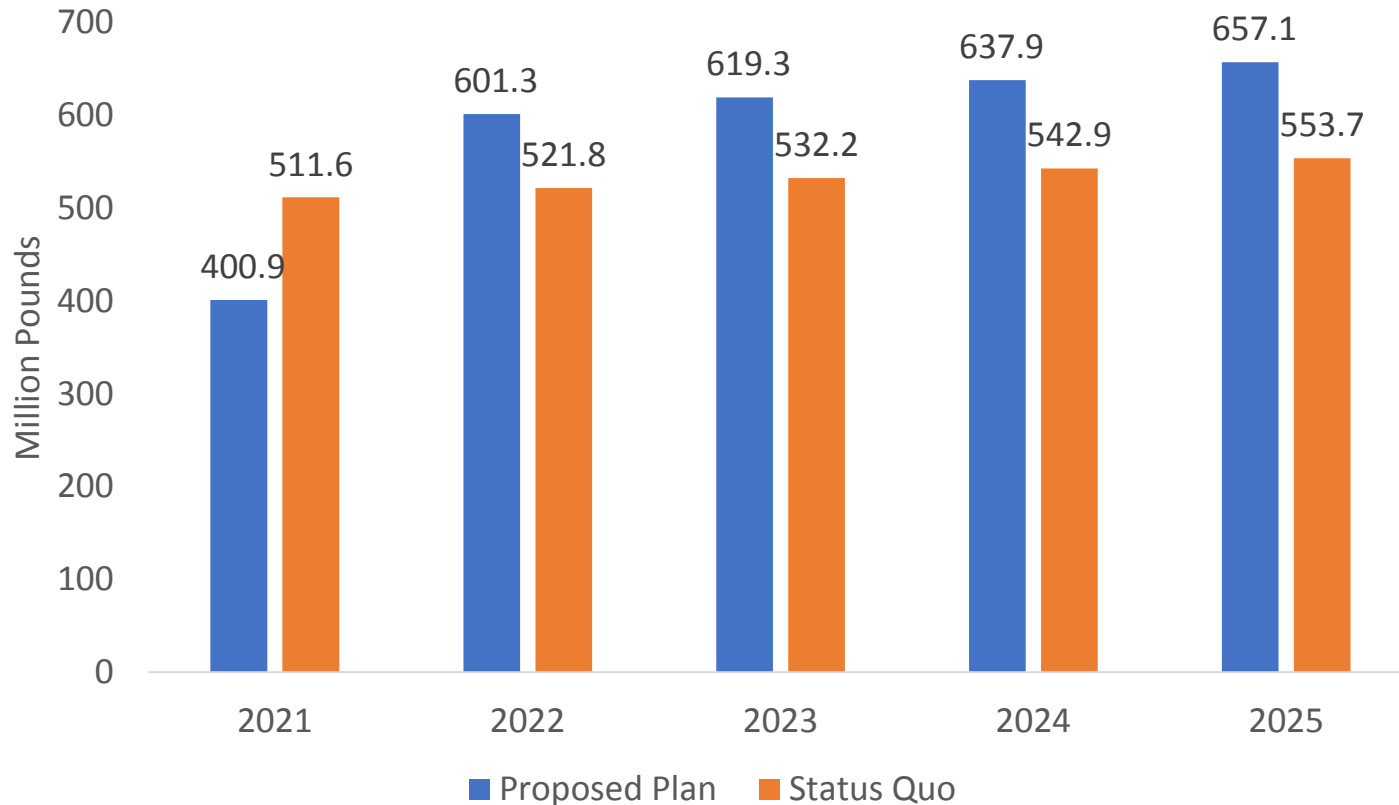
Projected Growth in Revenues



Key Drivers

- Revenue growth from 2018-2021 @ 1.7 %
- In 2022, the impact of the horizontal expansion is realized, increasing revenues by 50%

Operating Profits



Benefits

- Improved operating profit margins from 4% to 6%
- Increased market share: ~ 7-8% from 5.3%

Risks and Mitigation

Risks & Mitigations

Risk	Rank	Mitigation
Employee relations	High	<ul style="list-style-type: none">• Transparency• Maintain benefit program• Employee engagement
Partnership board agreement	Medium	<ul style="list-style-type: none">• Transparency• Phased, gradual plan• Emphasize that the plan is aligned with core values
Department store sale is slow	Medium	<ul style="list-style-type: none">• Continue to grow grocery business organically
Acquisition target identification & integration	Medium	<ul style="list-style-type: none">• Due diligence



Conclusion

Recommendation

John Lewis Partnership can adapt and thrive to their changing environment through a **strategic realignment.**

What Good Looks Like

- ✓ Navigate Brexit successfully
- ✓ Leverage technology
- ✓ Differentiate from competition
- ✓ Adapt business model for next 100 years

Conclusion

John Lewis
Partnership

Technology
Investment

Focused
Grocery
Business

Bigger,
Better
Waitrose





Thank You

▶ Questions?



Plan B: Vertically Integrate Department Stores

- 
- Reduces cost of goods sold
 - Increases control
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- 
- Workforce intensive
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